

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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FIRST NATIONAL BANK OF OMAHA, INC., :
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Plaintiff, :
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-v- : 03 CIV. 707 (DLC)
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MASTERCARD INTERNATIONAL INCORPORATED, :
:
Defendant. :
:
----- : OPINION AND ORDER
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MASTERCARD INTERNATIONAL INCORPORATED, :
:
Plaintiff, :
:
-v- : 02 CIV. 3691 (DLC)
:
FIRST NATIONAL BANK OF OMAHA, INC., :
:
Defendant. :
:
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Appearances:

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DENISE COTE, District Judge:

On May 12, 2004, a jury unanimously found that plaintiff
First National Bank of Omaha ("FNBO") failed to prove its claim

that its SMARTONE trademark is infringed by the use of the ONESMART trademark by MasterCard International Incorporated ("MasterCard") in connection with smart card services.

Typically, a smart card is a plastic card that contains a computer chip enabling the card's holder to purchase goods and services, to access financial or other records, and to perform various operations requiring data stored on the chip. The trial was limited to the question of whether MasterCard caused reverse confusion among the actual or potential FNBO agent banks to whom MasterCard's ONESMART program of smart card services was marketed.

FNBO now moves pursuant to Rule 65(d), Fed. R. Civ. P., to enjoin MasterCard permanently from using the terms ONESMART, ONESMART MASTERCARD, or any variant thereof (excluding the MasterCard logo) on any chip card, debit card, credit card, or advertising prototype that is used or proposed to be used by or with consumers in the banking, credit card or smart card service industries. FNBO does not specify whether it seeks to prevail on a claim of forward or reverse confusion. To date, MasterCard has not used the ONESMART mark or variants in connection with smart card services offered or advertised to consumers.

The early procedural history of this action is set forth in detail in this Court's February 23, 2004 Opinion ("February Opinion") denying the parties' motions for summary judgment, familiarity with which is presumed. MasterCard Int'l Inc. v. First Nat'l Bank of Omaha, No. 02 Civ. 3691 (DLC), 2004 WL 326708

(S.D.N.Y. Feb. 23, 2004). In brief, FNBO sent a letter on April 10, 2002, demanding that MasterCard cease and desist in its use of the ONESMART mark and abandon its ONESMART trademark applications. On May 15, MasterCard filed a complaint for a declaratory judgment (the "MasterCard Action") that its use of ONESMART, ONESMART MASTERCARD, or variants thereof did not infringe FNBO's trademark rights in the term SMARTONE. On July 30, FNBO filed a complaint in the District of Nebraska seeking an injunction and damages against MasterCard on grounds of infringement, and subsequently moved to dismiss or to transfer the MasterCard Action to Nebraska. FNBO's motion to dismiss or transfer was denied on November 13, 2002, MasterCard Int'l Inc. v. First Nat'l Bank of Omaha, No. 02 Civ. 3691 (DLC), 2002 WL 31521091 (S.D.N.Y. Nov. 13, 2002). The action filed by FNBO was assigned to this Court on January 29, 2003.

After discovery had concluded in these actions, both FNBO and MasterCard moved for partial summary judgment. On September 19, 2003, FNBO sought summary judgment on its claim to enjoin MasterCard from using the ONESMART mark, and, specifically, on the following three elements of its claim: first, that FNBO's SMARTONE mark is a valid mark entitled to protection; second, that there is a likelihood of confusion between ONESMART and SMARTONE; and third, that FNBO used the SMARTONE mark prior to MasterCard's use of ONESMART. On October 17, MasterCard moved for summary judgment dismissing FNBO's claims for monetary relief. Both the FNBO and MasterCard motions for summary

judgment were denied in the February Opinion.¹ MasterCard, 2004 WL 326708 at *12. The February Opinion also granted a motion in limine brought by MasterCard to exclude under Rules 403 and 702, Fed. R. Evid., survey evidence prepared by an FNBO expert that was intended to measure actual reverse confusion among actual or potential FNBO agent banks.

A jury trial in the FNBO Action began on May 3, 2004. The issue at trial was whether FNBO was entitled to money damages as a result of MasterCard's creation of a likelihood of reverse confusion between the SMARTONE and ONESMART marks among actual or potential FNBO agent banks.² These banks are the only prospective purchasers of FNBO's smart card services to whom MasterCard's ONESMART program has been presented and therefore the only market relevant to a claim for damages.

The following witnesses testified at trial in this order: George Schmezel, Director of Marketing for FNBO; Steven Schulz, Vice President of FNBO's consumer bank; Denise Mazour, an attorney specializing in trademark and copyright law who handled FNBO's SMARTONE application; Christopher Rieck, Vice President for Product Services at MasterCard; Saima Rahmanzai, a senior auditor at FNBO; Elias Eliopoulous, President of FNBO's consumer

¹ It is worth noting that while FNBO's trademark SMARTONE was registered on December 23, 2003, the Court was not notified of this development until after the issuance of the February Opinion. FNBO's federal registration was therefore not considered in deciding the motions for summary judgment.

² The parties agreed that no claim of forward confusion would be presented at trial.

bank; Jonathan Knowles, an expert witness on brand strategy for FNBO; Cate Elsten, an expert witness on damages for FNBO; Arthur Kranzley, Chief E-business Officer and Executive Vice President of MasterCard; Scott Phillips, an expert witness on damages for MasterCard; Colm Dobbyn, Senior Vice President and Assistant General Counsel for MasterCard; and Robyn Hohns, a consultant who worked at a MasterCard facility. In addition, video footage of the deposition testimony of Christina Costa, who handled MasterCard's promotion of the ONESMART program, was played for the jury, as was footage of the testimony of the following individuals concerning third party use of the term "smart one": Peter Schork, Vice President of the Bank of Ann Arbor; Radu Achiriloaie, Vice President of Oblio Telecom, Inc.; and Badar Khan, Senior Vice President of Marketing for SmartEnergy, Inc.

The evidentiary portion of the trial concluded on May 10, and on May 12, a unanimous jury found that FNBO failed to prove its claim. The factual record upon which this motion for a permanent injunction is based was closed at the conclusion of trial on May 12. Both parties declined the opportunity to supplement the record. FNBO's motion for a permanent injunction was submitted on May 28, in accordance with the schedule set forth in a May 12 Order. For the following reasons, FNBO's motion for a permanent injunction is denied.

Findings of Fact

FNBO and SMARTONE

FNBO is a national bank that offers credit card services and processing to its own customers, to those of its affiliates, and to agent banks in at least seven states.³ FNBO's processing services are used principally by mid-sized banks. FNBO entered the smart card market on the belief there was significant potential for future growth in the industry and adopted the SMARTONE name because it felt the term would appeal to consumers across FNBO's agent bank network. FNBO submitted an application to the United States Patent and Trademark Office ("PTO") on November 24, 2000 for federal registration of the SMART ONE trademark in connection with banking services, credit card services, and smart card services.⁴

FNBO has featured the SMARTONE card on its website and sent out two waves of direct mail solicitations to a specially selected set of its customers: 400,000 mailings in September 2002, and 700,000 mailings in March 2003. The mailings targeted customers FNBO believed would be particularly receptive to a smart card product. The mailings generated a better response rate than is typical in direct mail campaigns and resulted in the

³ Affiliate banks are owned by FNBO, while agent banks are those that allow FNBO to do their credit card processing.

⁴ On April 29, 2003, FNBO amended its PTO application for registration of the SMART ONE mark to apply for registration of SMARTONE instead. This Opinion uses the amended version of FNBO's mark.

issuance of approximately 9,000 FNBO SMARTONE cards as of the Summer of 2003.⁵ These smart cards include the bank's name and symbol (an encircled "1") in the upper left corner, a holographic chip accompanied by the word smart along the left side of the card, the term "smartOne" in distinctive font in the center of the card, and the VISA name (in larger font than either the bank or "smartOne" name) displayed across the striped blue and gold VISA symbol in the lower right corner of the card. FNBO has done no additional consumer advertising.

In addition to consumer marketing, FNBO has spoken to two of its agent banks about issuing smart cards bearing the SMARTONE mark. FNBO has sent solicitations to the customers of one of these banks, Hibernia, on its behalf. The card advertised features the Hibernia name in the upper left corner, as well as the holographic chip and SMARTONE and VISA marks as described above. FNBO's name is not included on the front of the Hibernia smart card, and FNBO does not intend to include its name on any SMARTONE cards issued by its other agent banks. FNBO testified that it intended for these SMARTONE cards to be understood by consumers as an offering of the issuing agent bank.

To date, FNBO has spent approximately six million dollars on the development and marketing of its chip card program. FNBO decided to halt its smart card program roughly one year ago as a

⁵ FNBO claims that 40,000 smart cards bearing the SMARTONE name were issued as of May 2004. This claim is not directly supported by the evidentiary record.

result of business considerations as well as uncertainty related to the outcome of this lawsuit. FNBO received a federal registration for the term SMARTONE in connection with banking services, credit card services, and smart card services on December 23, 2003.⁶

MasterCard and ONESMART

MasterCard is a global payment systems company whose members include the financial institutions that issue MasterCard cards to consumers. MasterCard competes with other international card networks such as Visa and American Express. MasterCard itself is not a bank and does not issue bank cards.

MasterCard filed two applications to register the ONESMART trademark on June 4, 2001 -- the first for use in the field of financial services, including credit and other payment card services, and the second for use in connection with computer hardware. MasterCard uses the term ONESMART in conjunction with the ONESMART MASTERCARD program of services and support, including system design and hardware selection, provided to member banks who choose to offer smart cards to their customers. The ONESMART MasterCard program is directed primarily at the

⁶ As determined prior to trial, FNBO is the senior user vis-a-vis MasterCard. FNBO's registration grants it a constructive use date retroactive to the date the application was filed. Warnervision Entertainment, Inc. v. Empire of Carolina, Inc., 101 F.3d 259, 260 (2d Cir. 1996); 15 U.S.C. § 1057(c). A trademark owner has priority over all other users except those who used or filed an application for registration of the mark prior to the owner's filing, and have not abandoned the mark. 15 U.S.C. § 1057(c). It is undisputed that FNBO's application preceded MasterCard's first use of its mark.

network's largest member banks, such as Citibank and Capital One, who have the resources to invest in developing a smart card offering for consumers. MasterCard's advertising campaign, which began in April 2002, included a website, trade show presentation, advertisements in banking industry trade journals, and informational brochures distributed to some of MasterCard's member banks. MasterCard concluded its advertising in 2002.

These materials use the term ONESMART MASTERCARD and the slogan ONESMART CARD. MORE SMART CHOICES, as well as the term ONESMART followed by nouns such as "card," "choice," and "move." Although the term ONESMART does not always directly precede MASTERCARD, it is clear that the ONESMART MASTERCARD program is being advertised. The brochures also display prototype smart cards on which "YourBank" is written on the upper right corner over a stylized "OneSMART" logo in smaller font. The MasterCard name and symbol of overlapping circles appear prominently in the lower right corner. A holographic chip similar to that on the SMARTONE card is located on the left side of the card. Only a few banks have expressed interest in putting the ONESMART name on a smart card, and none have done so to date.⁷ MasterCard has not presented the ONESMART MASTERCARD program to consumers or advertised it in the consumer market.

⁷ MasterCard did suggest to at least one of these banks that it delay use of the name until the resolution of this litigation, however.

In addition to the two applications to register ONESMART filed in June 2001, MasterCard filed applications to register ONESMART MASTERCARD for financial services and computer hardware on October 11, 2001. On February 6, 2002, it applied for the trademark ONE SMART CARD. MORE SMART CHOICES in the financial services industry. On February 24, MasterCard applied to register a stylized version of the ONESMART mark (the "Stylized Application"), displayed as "OneSMART," for use in connection with financial services. The Stylized Application, which was sent to a different trademark examiner than the previous ONESMART applications, was registered on February 18, 2003. The other MasterCard applications have been approved for publication by the PTO, but none has been registered.

MasterCard's trademark applications were handled by Assistant General Counsel and Senior Vice President Colm Dobbyn, who testified at trial. Prior to seeking registration of the term ONESMART, Dobbyn conducted a full trademark search in May 2001, uncovering a pending application for the mark ONE SMART LOAN.COM, later abandoned, as well as numerous applications for the SMART ONE trademark. Within the class of financial services, the search described an application for the mark SMARTONE RATE, to be used in connection with the provision of electric power, as well as FNBO's SMARTONE application for use connection with credit and smart card services and a similar, but later-filed application by Capital One for the same mark. Outside of the

financial services class, the trademark search revealed six applications for the SMART ONE mark.

On October 3, 2001, Dobbyn provided the following e-mail opinion ("October 3 Opinion") concerning MasterCard's ONESMART trademark application:

[W]e are aware of a prior trademark filing for SMART ONE by First National bank of Omaha . . . First National Bank of Omaha has priority over Capital One and should be able to prevent Capital One from registering the same mark (our interest is in the term ONE SMART, which is arguably distinguishable from SMART ONE.) . . .

[T]he filings [by] Capital One and First National of Omaha are not the only references that are of potential interest to the adoption of ONE SMART by MasterCard; the terms "smart" and "one" are common components of numerous trademark filings by various parties. . . .

As a result of the numerous prior filings and uses of the "Smart One" and "One Smart" terminology, it is our opinion that it would be difficult for MasterCard to obtain exclusive trademark rights over the term ONE SMART in the United States. Nevertheless, we believe that it may be possible to obtain certain limited rights over the composite mark ONE SMART MASTERCARD, given our broad existing rights in the MASTERCARD mark.

[H]owever, we would be prepared to argue to the Trademarks Office that ONE SMART is sufficiently different from SMART ONE that the two terms can co-exist. We have already filed applications for both ONE SMART MASTERCARD and ONE SMART alone, with the understanding that it may be necessary to abandon attempts to register ONE SMART itself. We would recommend the term be used as a composite form -- ONE SMART MASTERCARD. We cannot rule out the possibility of an opposition proceeding or other legal action being taken by First National Bank of Omaha or by any other third party, however.

(Emphasis supplied.) Dobbyn's opinion is consistent with MasterCard's continued efforts to register the ONESMART mark, including its Stylized Application in February 2002, and with its decision to launch the ONESMART MASTERCARD program in April 2002.

Subsequent to the October 3 Opinion, Dobbyn reviewed all MasterCard literature containing the ONESMART term to ensure that it complied with his opinion. MasterCard inadvertently failed to list the Stylized Application in a complaint and declaration filed with this Court.

The Smart Card Industry

Smart card programs have been more successful outside of the United States, particularly in Europe. At present, over 150 million MasterCard cards with smart card capabilities have been issued overseas. Although most of these cards were issued prior to the international launch of the ONESMART MASTERCARD program in April 2002, ONESMART MASTERCARD has generated additional smart card activity abroad. Within this country, however, the smart card market has been difficult at best. The reasons for the poor performance of smart cards in the United States include the unwillingness of merchants to purchase and install the expensive equipment and software necessary to utilize the card's "smart" capabilities, and the existence in this country of a rapid and extensive verification system that reduces the incidence of credit card fraud without the need to resort to the protections against fraud provided by the smart card. The "killer application" for smart card technology that the industry had hoped would drive consumer demand and merchant acceptance has thus far failed to materialize. Both FNBO and MasterCard acknowledge that the smart card market appears to have reached at

least a temporary plateau, although FNBO executives continue to believe that it will be followed by strong future growth.

Third-Party Use

A smart card business plan prepared by FNBO identifies as FNBO's primary competition other banks and credit card providers establishing smart card programs and suggests that telephone, gas and electric companies also posed a threat in the electronic cash and internet payment markets. Within these areas, detailed evidence of three concurrent third party uses of the term SMARTONE or a variant thereof was presented at trial. These include the Bank of Ann Arbor, which uses "Smart One" to describe checking account services that were offered to customers in a county in Michigan prior to FNBO's application for the SMARTONE mark; Oblio Telecom, which has sold over 12 million prepaid phone cards under the name "Smart 1"; and SMARTONE RATE, used by SmartEnergy.com in a pilot financing services program for purchasers of electrical power, which has since been discontinued.

Discussion

Trademark Infringement

The Lanham Act, 15 U.S.C. §§ 1051 et seq., protects the owner of a registered trademark from the use in commerce of any "colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive."

15 U.S.C. § 1114(1)(a). "To prevail on a claim of trademark infringement, a plaintiff must show, first, that its mark merits protection, and, second, that the defendant's use of a similar mark is likely to cause consumer confusion." Brennan's, Inc. v. Brennan's Restaurant, L.L.C., 360 F.3d 125, 129 (2d Cir. 2004).⁸

1. Protectibility of the Mark

A valid and protectible mark must be capable of distinguishing the products it marks from those of others. TCPIP Holding Co., Inc. v. Haar Communications, Inc., 244 F.3d 88, 93 (2d Cir. 2001); Lane Capital Management, Inc. v. Lane Capital Management, Inc., 192 F.3d 337, 344 (2d Cir. 1999). There are five categories of terms, reflecting both the mark's eligibility for protection and the degree of protection that it is accorded under the law. Lane, 192 F.3d at 344. In descending order of strength, these categories are: fanciful, arbitrary, suggestive, descriptive and generic. Id. A fanciful mark, accorded the highest level of protection, is not a real word but is invented for its use as a mark. Id. An arbitrary mark uses a common word in an unfamiliar way. Id. A suggestive mark "merely suggests the features of the product, requiring the purchaser to use imagination, thought, and perception to reach a conclusion as to

⁸ FNBO seeks an injunction preventing the use of "ONESMART, ONESMART MASTERCARD, or any variant thereof" in the consumer market. This Opinion addresses only FNBO's strongest argument -- that the ONESMART mark, standing alone, creates a likelihood of confusion with the SMARTONE mark. There is no need to address the weaker arguments concerning the composite term or variants thereof.

the nature of the goods.”⁹ Id. Marks classified in these three categories -- fanciful, arbitrary, and suggestive -- are all considered “inherently distinctive” and therefore protectible, but a mark that is merely suggestive is accorded the lowest degree of protection in this ranking. Id.

The registration of a trademark with the PTO is prima facie evidence that the mark is valid and protectible. Lane, 192 F.3d at 345. When the PTO registers a trademark without requiring proof of secondary meaning, a presumption arises that the mark is more than merely descriptive and is therefore inherently distinctive. Id. A defendant may rebut this presumption by demonstrating that the purchasing public does not perceive a mark to be distinctive. Id. at 345.

Because SMARTONE was registered by the PTO on December 23, 2004 without proof of secondary meaning, there is a presumption that the mark is inherently distinctive. At trial, MasterCard stipulated that SMARTONE is a suggestive mark and therefore has not offered any evidence of public perception to rebut the presumption of SMARTONE’s distinctiveness. Although the parties’ stipulation to SMARTONE’s classification as suggestive is not binding on this Court, an independent evaluation of the mark results in the same conclusion. The term SMARTONE employs common

⁹ Of the remaining categories, a descriptive mark employs ordinary language to describe a product’s features or its use, and requires a showing that the mark has acquired secondary meaning to be considered protectible. TCPIP, 244 F.3d at 93. A generic mark is a common means of identifying a product or its source and is not protectible. Id.

words in a familiar order to suggest the “smart” feature of FNBO’s card, while still requiring the purchaser to use imagination to identify the complete nature of the product.

2. Likelihood of Forward Confusion

To prevail on a theory of forward confusion, a plaintiff must establish that “numerous ordinary prudent purchasers are likely to be misled or confused as to the source of the product in question because of the entrance in the marketplace of defendant’s mark.” Patsy’s Brand, Inc. v. I.O.B. Realty, Inc., 317 F.3d 209, 217 (2d Cir. 2003) (citation omitted). A finding of infringement, moreover, requires a “probability of confusion, not a mere possibility.” Streetwise Maps, Inc. v. VanDam, Inc., 159 F.3d 739, 743 (2d Cir. 1998).

To assess the likelihood of consumer confusion between two marks, a court applies the eight-factor test set forth in Judge Friendly’s landmark decision Polaroid Corp. v. Polarad Electronics, Corp., 287 F.2d 492, 495 (2d Cir. 1961). Brennan’s, 360 F.3d at 130; see also Virgin Enterprises Ltd. v. Nawab, 335 F.3d 141, 146 (2d Cir. 2003). This test suggests analysis of the following non-exclusive factors: (1) the strength of the plaintiff’s mark, (2) the degree of similarity between the two marks, (3) the competitive proximity of the products, (4) the likelihood the plaintiff will bridge any gap, (5) actual confusion (6) the defendant’s good faith in adopting its mark, (7) the quality of the defendant’s products, and (8) the sophistication of the purchasers. Brennan’s, 360 F.3d at 130.

This is not a mechanical inquiry in which any one factor is dispositive. Nora Beverages, Inc. v. Perrier Group of America, Inc., 269 F.3d 114, 119 (2d Cir. 2001). Rather, "each factor must be evaluated in the context of how it bears on the ultimate question of likelihood of confusion as to the source of the product." Brennan's, 360 F.3d at 130 (citation omitted).

Strength of the Plaintiff's Mark

"The strength of a mark refers to its ability to identify the source of the goods being sold under its aegis." Brennan's, 360 F.3d at 130. Strength is measured by two components: inherent distinctiveness and distinctiveness in the marketplace. Id. at 130-31; see also Streetwise, 159 F.3d at 743. Inherent distinctiveness describes a mark's abstract potential to identify goods and is analyzed according to the same categories and ranking used to evaluate the protectibility of a mark. Brennan's, 360 F.3d at 131. A suggestive mark is inherently distinctive, although not as theoretically strong as an arbitrary or fanciful mark. Lane, 192 F.3d at 344. This hierarchy is imposed because the more descriptive -- rather than arbitrary -- a mark is, the more likely it is that consumers will assume similar marks were chosen because they describe similar products, not because the products come from the same source. TCPIP, 244 F.3d at 100-01.

Distinctiveness in the marketplace, or acquired distinctiveness, gauges the degree of consumer recognition the mark has achieved among members of the purchasing public as the

designator of the plaintiff's services. Brennan's, 360 F.3d at 131; TCPIP, 244 F.3d at 100. To support a finding that a mark has acquired this secondary meaning, a plaintiff must show that "a significant number of prospective purchasers understand the term when used in connection with the particular kinds of goods involved in the registration certificate as indicative of an association with a specific entity." Genessee Brewing Co, Inc. v. Stroh Brewing Co., 124 F.3d 137, 143 n.4 (2d Cir. 1997).¹⁰

Factors relevant to this analysis include: "(1) advertising expenditures, (2) consumer studies linking the mark to a source, (3) unsolicited media coverage of the product, (4) sales success, (5) attempts to plagiarize the mark, and (6) length and exclusivity of the mark's use." Id. (citing Centaur Communications v. A/S/M Communications, 830 F.2d 1217, 1222 (2d Cir. 1987)).

SMARTONE is an inherently distinctive but weak mark. There is little evidence that SMARTONE has acquired secondary meaning. The only advertising by FNBO has been through its website and two series of direct mailings to existing customers. There was no presentation at trial of any consumer studies, unsolicited media coverage, or attempts to plagiarize the SMARTONE mark.¹¹ The term was only presented to consumers in September 2002, and FNBO halted the marketing of its SMARTONE program approximately one

¹⁰ This entity, however, may be anonymous. Patsy's, 317 F.3d at 217.

¹¹ As FNBO concedes, MasterCard chose the ONESMART mark independently and decided to investigate its availability before it learned of FNBO's SMARTONE mark.

year later. Several third parties, moreover, have employed the term "Smart One" in related financial, phone, and energy industries in the consumer marketplace.

In the Summer of 2003, 9,000 SMARTONE smart cards were in the marketplace. While this may have been a better return than FNBO expected on its direct mailings, there is no evidence that the SMARTONE name contributed to these sales. In fact, it is more reasonable to infer that these FNBO customers responded based on their associations with the FNBO and VISA trademarks or their desire to try the new smart card technology. The SMARTONE mark appears on the FNBO smart card amidst the bank's prominent name and the unmistakable VISA name and symbol, and across from a holographic chip next to which the word "smart" appears. The same is true of smart cards offered by Hibernia and proposed to other FNBO agent banks. The card that FNBO hopes that its affiliate and agent banks will use will each carry that bank's name and the Visa marks, but not FNBO's name or logo. Amidst this jumble of better-known names and symbols, there is little reason to find that consumers will attach meaning to the SMARTONE name or view it as designating a single source of the smart cards or services provided by their financial institutions.

SMARTONE is therefore a weak mark. Though suggestive, there is no evidence that it has yet acquired any significant level of distinctiveness in the consumer marketplace or that it is likely to become associated in consumers' minds with a particular smart card source.

Similarity of the Marks

When evaluating the similarity of two marks, a court must "take into account the overall context in which the marks appear and the totality of circumstances that could cause consumer confusion." EMI Catalogue Partnership v. Hill, Holliday, Connors, Cosmopulos, 228 F.3d 56, 66 (2d Cir. 2000). The prominent use of a brand name alongside a trademark can serve to dispell confusion as to the source of a product. Nabisco, Inc. v. Warner-Lambert, Co., 220 F.3d 43, 46-47 (2d Cir. 2000); W.W.W. Pharmaceutical Co., Inc. v. Gillette Co., 984 F.2d 567, 573 (2d Cir. 1993). The ultimate question is whether any similarity "is more likely than not to cause consumer confusion." Brennan's, 360 F.3d at 133.

Although the SMARTONE and ONESMART marks both contain the words "one" and "smart," the similarity between these transposed marks is lessened substantially by their commercial presentation, particularly alongside the well-known Visa and MasterCard brands. SMARTONE appears exclusively on smart cards emblazoned with the famous Visa logo and blue and gold striped symbol, while ONESMART always appears on cards featuring the MasterCard mark and its symbol of interlocking red and yellow circles. These brands and logos are the predominant marks on both smart cards and, in the absence of a significant campaign to create secondary meaning for the ONESMART term, are the most likely to be recognized as the

source of the card at issue. They are also understood by the public to be staunch competitors in the credit card field.¹²

In addition, the smart cards at issue feature the name of the issuing consumer bank -- an institution with which the cardholder is likely familiar or has an existing relationship. Finally, the marks are presented differently on the two cards, with "*smartOne*" appearing in the center of the FNBO card and "*OneSMART*"¹³ included in the upper right corner of the MasterCard smart card.

In this commercial context, the similarity between the two marks is unlikely to cause consumer confusion as to the source of the FNBO and MasterCard member bank products. Consumers are more likely to view the source of the product as one of the Visa or MasterCard card networks, well-known competitors, or as the familiar issuing bank clearly indicated on the smart card. It is far less likely that the SMARTONE and ONESMART marks will be viewed by consumers as designating the source -- rather than the nature -- of the smart card product. In the totality of circumstances in which consumers are presented with the SMARTONE

¹² FNBO argues that many consumers do not understand that Visa and MasterCard are different organizations. The only evidence on which it bases this contention is a one-word response from a MasterCard executive to a question during his deposition. The response is of little value without the context in which it was asked and is insufficient to support the unreasonable inference that consumers do not distinguish between the Visa and MasterCard brands.

¹³ The appearance of the quoted terms is only approximated in this Opinion. The distinct commercial impressions created by the marks is heightened by the different fonts employed, particular for the latter portion of the ONESMART mark.

and ONESMART marks, there is an insufficient basis to find that their similarity is likely to cause confusion as to the source of the smart card on which they appear.

Proximity of the Products in the Market and Likelihood of Bridging the Gap

The proximity inquiry assesses the extent to which the products compete with each other, evaluating the nature of the products and the structure of the relevant market. Brennan's, 360 F.3d at 134. "[T]he closer the secondary user's [services] are to those the consumer has seen under the prior user's brand, the more likely that the consumer will mistakenly assume a common source." Virgin, 335 F.3d at 150.

FNBO is seeking a limited injunction preventing MasterCard from entering the consumer market. If smart cards bearing the ONESMART mark were issued to consumers, products bearing the SMARTONE and ONESMART marks would operate at the same commercial level. The prospect of such competition, however, is difficult to assess with precision.¹⁴

¹⁴ MasterCard does not issue bank cards and does not decide whether the term appears on smart cards held by consumers. The decision to employ the ONESMART term is made by member banks who choose to participate in the ONESMART MASTERCARD program. To date, only a few banks have participated in the program, fewer have inquired about use of the mark, and none have employed the name on smart cards presented to consumers. FNBO requests an injunction preventing competitive use at the consumer level, but numerous factors, including the limited success of the ONESMART MASTERCARD program, and the poor performance of the smart card market suggest that any use of the ONESMART mark on consumer cards is uncertain at best.

MasterCard argues that FNBO's voluntary withdrawal of its claim of contributory infringement prior to trial represents an acknowledgment that MasterCard is not encouraging its member banks to use ONESMART on cards. It is unnecessary to reach this argument given the Court's conclusion that there is no likelihood

Actual Confusion

____ Under the Lanham Act, actual confusion refers to “consumer confusion that enables a seller to pass his goods off as the goods of another.” The Sports Authority, Inc. v. Prime Hospitality Corp., 89 F.3d 955, 963 (2d Cir. 1996) (citation omitted). Although evidence of actual confusion is highly relevant, it is well-established that a plaintiff need not offer such evidence to prevail in a claim for injunctive relief under the Lanham Act. Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co., 799 F.2d 867, 875 (2d Cir. 1986).

FNBO has presented no evidence of actual consumer confusion as to the source of cards bearing the SMARTONE and ONESMART marks. This absence of direct evidence is to be expected since no smart cards bearing the ONESMART mark have been issued or marketed to consumers and does not prevent FNBO from prevailing under the Lanham Act. FNBO did not conduct a survey to measure consumer confusion. FNBO offered no admissible evidence at trial of actual confusion between the SMARTONE and ONESMART marks among members of FNBO’s actual and potential agent banks.¹⁵

of confusion between the SMARTONE and ONESMART marks.

¹⁵ The only evidence of actual confusion that FNBO sought to present was survey evidence so flawed that any probative value was outweighed by its potential to prejudice the jury. MasterCard, 2004 WL 326708 at *7-10. The survey’s flaws, which are described in detail in the February Opinion, include the small number of respondents surveyed, the survey’s failure to address non-response bias, and the lack of resemblance between the survey questions and conditions and the actual decision-making process of the relevant agent bank employees. Id. at *9-10. These deficiencies also preclude assigning any weight to this evidence at this stage of the proceedings.

MasterCard's Alleged Bad Faith

This factor “looks to whether the defendant adopted its mark with the intention of capitalizing on plaintiff’s reputation and goodwill and any confusion between his and the senior user’s product.” Nora Beverages, 269 F.3d at 124 (citation omitted). “Full knowledge of a prior use of a protected mark is not necessarily inconsistent with a finding of good faith, particularly where the alleged infringer is unsure as to the scope of protection.” Cadbury Beverages, Inc. v. Cott Corp., 73 F.3d 474, 483 (2d Cir. 1996) (citation omitted). Ultimately, the determination of whether a party acted in bad faith is not of high relevance, however, since “it does not bear directly on whether consumers are likely to be confused.” Virgin, 335 F.3d at 151; TCPIP, 244 F.3d at 102.

There is no basis for a finding that MasterCard acted in bad faith in its adoption, use or registration of the ONESMART mark.¹⁶ To begin, there is no evidence that MasterCard adopted the ONESMART mark with any intention of capitalizing on FNBO’s goodwill or with the intent to cause confusion between the SMARTONE and ONESMART marks. FNBO’s allegations that MasterCard displayed bad faith by adopting, using and registering the

¹⁶ FNBO relies on the February Opinion to argue that the evidence supports MasterCard’s bad faith in the adoption and use of the ONESMART mark. MasterCard’s motion for summary judgment was denied on the ground that the evidence submitted in connection with the motion raised a material issue of fact. The evidence presented at trial, however, resolves this issue -- there is no basis to conclude that MasterCard demonstrated bad faith in its efforts to register or market the ONESMART mark.

ONESMART mark with knowledge of FNBO's prior use were not borne out by the evidence presented at trial. The evidence of MasterCard's trademark counsel was particularly compelling. Mr. Dobbyn is an experienced trademark attorney who analyzed the legal issues with care and precision. His testimony was entirely credible and established that MasterCard obtained first-rate legal advice and relied upon that advice in its decisions.

As MasterCard's in-house counsel, Dobbyn conducted a full trademark search and issued an opinion suggesting that MasterCard argue to the PTO that SMARTONE and ONESMART could co-exist in the financial services market.¹⁷ MasterCard's subsequent marketing of the ONESMART MASTERCARD program was conducted in accordance with his recommendations, and its trademark applications, including the Stylized Application, were similarly consistent with his advice. MasterCard's omission of the Stylized Application -- a public document -- from a list included in documents filed with this Court was inadvertent and insufficient to suggest bad faith.¹⁸

¹⁷ In contrast, FNBO did a truncated trademark search and its submissions to the PTO contained false statements and omissions. Because MasterCard informed the PTO of these deficiencies prior to its decision to register FNBO's SMARTONE mark, the Court concluded that the flaws were not material and refused to charge the jury on MasterCard's claim that the SMARTONE registration should be cancelled due to fraud on the PTO.

¹⁸ There is no need to address FNBO's claim, asserted for the first time in its reply brief, that the Court should draw an adverse inference against MasterCard because it refused to produce information relating to the advice of counsel. No evidence warranting such an inference has been presented.

Quality of MasterCard's Products

The quality of a junior user's product may be relevant to the likelihood of confusion analysis in two ways: "(1) an inferior product may cause injury to the plaintiff trademark owner because people may think that the senior and junior products came from the same source; or (2) products of equal quality may tend to create confusion as to the source because of this very similarity." Hormel Foods Corp. v. Jim Henson Prods., Inc., 73 F.3d 497, 505 (2d Cir. 1996). FNBO has developed its own chip technology, employing chips purchased from a third-party vendor. MasterCard's ONESMART MASTERCARD program permits member banks to select the chip technology they employ. There is no evidence upon which to evaluate the relative quality of the services that might be offered under each mark. There is, however, no reason to believe that MasterCard member banks would utilize inferior chip technology and insufficient evidence about the range in the menu of services that may be offered with competing smart cards to conclude that confusion in the smart card market would be created as a result of competing cards employing similar technologies.

Sophistication of Consumers

A likelihood of confusion analysis examines the level of sophistication of the relevant purchasers -- here, consumers in the smart card market. A court considers "the general impression of the ordinary consumer, buying under normal market conditions and giving the attention such purchasers usually give in

purchasing the product at issue.” Streetwise Maps, 159 F.3d at 746.

FNBO has not presented any evidence concerning the sophistication of consumers making decisions between smart cards. While consumers are not expected to possess the expertise of the agent bank employees who were the focus of the trial in this action, it is reasonable to assume that, at a minimum, smart card purchasers are familiar with the Visa and MasterCard brands -- including their competitive status. It is likely, therefore, that the relevant consumers will distinguish between smart cards bearing the Visa and MasterCard brands, undermining any confusion that may result from the use of the SMARTONE and ONESMART brands.

In sum, the weakness of the SMARTONE mark in the commercial context and the presence of strong brand names minimizing any potential confusion caused by similarity between the SMARTONE and ONESMART marks weigh heavily against finding a likelihood of confusion between the marks. FNBO does seek an injunction preventing the use of ONESMART on what are theoretically competitive smart card products, but the speculative nature of such use lessens the relevance of this factor to the inquiry at hand. There is insufficient evidence upon which to find a probability,¹⁹ as opposed to a mere possibility, that consumer

¹⁹ In its reply brief, FNBO relies for the first time on Banff, Ltd. v. Federated Department Stores, Inc., 841 F.2d 486 (2d Cir. 1988), to support its claim that it is entitled to a permanent injunction based on a balancing of the Polaroid factors. In Banff, however, the marks at issue -- the brand names “Bee Wear” and “B Wear” used on women’s clothing labels -- clearly and meaningfully identified to consumers the source of the goods to which they were attached. This is not true of the

confusion as to the source of smart card services bearing the SMARTONE trademark would result from the use of MasterCard's ONESMART mark on smart cards issued or marketed to consumers.

3. Likelihood of Reverse Confusion

FNBO does not identify whether it bases its request for an injunction in whole or part on a likelihood of reverse confusion. Reverse confusion occurs when a bigger and better-known "junior user saturates the market with a similar trademark and overwhelms the senior user. The public comes to assume the senior user's products are really the junior user's or that the former has become somehow connected to the latter." Ameritech, Inc. v. American Information Technologies Corp., 811 F.2d 960, 964 (6th Cir. 1987); see also A&H Sportswear Inc. v. Victoria's Secret Stores, Inc., 237 F.3d 198, 228 (3d Cir. 2000); W.W.W. Pharmaceutical Co. Inc. v. Gillette Co., 984 F.2d 567, 571 (2d Cir. 1993); Sands, Taylor & Wood Co. Quaker Oats Co., 978 F.2d 947, 957 (7th Cir. 1992); Banff, Ltd. v. Federated Dep't Stores, 841 F.2d 486, 490 (2d Cir. 1988). For confusion to be considered reverse, it must be more likely that consumers will first encounter the junior user's -- rather than the senior user's -- goods. A&H Sportswear, 237 F.3d at 230; Banff, 841 F.2d at 490. The senior user is harmed if its trademark is deprived of its ability to identify and distinguish its services or if purchasers erroneously believe the senior user is infringing the mark of the junior user. W.W.W. Pharmaceutical, 984 F.2d at 571.

SMARTONE and ONESMART marks.

The likelihood of reverse confusion is measured according to the Polaroid factors described above, with the following distinctions as to the first factor, the strength of the plaintiff's mark, and the sixth factor, the defendant's good faith. In cases of forward confusion, the first Polaroid factor assesses the strength of the senior user's mark. For both forward and reverse confusion claims, a plaintiff with a conceptually weak mark is less likely to prevail. A&H Sportswear, 237 F.3d at 231. A plaintiff with a mark that is commercially weak, however, is more likely to succeed in establishing reverse confusion, particularly against a defendant with a far stronger mark. Id.

The sixth factor in the traditional Polaroid analysis examines whether the defendant adopted its mark with the intention of capitalizing on the plaintiff's reputation or goodwill. Brennan's, 360 F.3d at 130. In the context of reverse confusion, it is unlikely that a larger and better known junior user intends to trade on the reputation of the lesser-known plaintiff. This factor is therefore less relevant in a reverse confusion inquiry, although any finding that the defendant adopted its mark with an intent to cause any form of confusion should weigh in favor of the plaintiff. A&H Sportswear, 237 F.3d at 232.

As an initial matter, FNBO has failed to establish the relevance of an analysis of the likelihood of reverse confusion between the SMARTONE and ONESMART marks among consumers. FNBO

has presented no evidence that MasterCard is likely to saturate the consumer market with the ONESMART mark. It is reasonable to infer from the evidentiary record at trial -- including the limited success of the ONESMART MASTERCARD program, the lack of interest expressed by member banks in the ONESMART name, and the lackluster market for smart cards in the United States -- that any use of the ONESMART mark at the consumer level will be limited in scope. Such use, moreover is unlikely to occur in the near future given the perceived lack of consumer demand and the time and expense required by member banks to develop the requisite chip technology.

FNBO, on the other hand, has already developed its chip technology and entered the consumer market, where it claims to have exceeded its own performance goals with 40,000 existing smart cards issued to consumers. FNBO is poised to continue and expand its marketing campaign if it chooses to do so. There is no basis to find that the ONESMART mark is likely to overwhelm FNBO's existing SMARTONE mark, as is required to form the factual predicate on which a claim for reverse confusion is based.

It is therefore unnecessary to undertake an examination of the Polaroid factors to determine whether there is a likelihood of reverse confusion. Were such an analysis warranted, however, FNBO fares no better under this theory than it did on its claim of forward confusion. The first factor in a reverse confusion analysis -- the relative strength of the marks -- does not favor FNBO. Although FNBO's SMARTONE mark is commercially weak, as

described above, MasterCard's ONESMART mark is no stronger and is unlikely to attain significant commercial strength. MasterCard's ONESMART mark has not yet been advertised to consumers or appeared on any smart cards available to consumers. Evidence was presented that member banks have expressed little interest in the ONESMART mark itself and that several have or plan to employ different names on smart cards issued in accordance with the ONESMART MASTERCARD program. There is little reason to believe that the ONESMART name will be featured prominently in consumer advertising. The ONESMART mark, moreover, would be used in conjunction with the name of the issuing bank and with the prominent MasterCard logo and symbol, undermining consumers' association of the ONESMART mark with the source of the smart card services in the same manner that weakened the commercial strength of the SMARTONE mark.

The analysis of remaining Polaroid factors in the previous section applies to the reverse confusion inquiry as well. There is similarly no basis upon which to find a likelihood of reverse confusion meriting the issuance of permanent injunction preventing the use of the ONESMART mark at the consumer level.

Conclusion

FNBO's motion for a permanent injunction preventing the use of the term ONESMART, ONESMART MASTERCARD, or any variant thereof of on chip cards, debit cards, or credit cards marketed to

consumers is denied. The Clerk of Court shall enter judgment for MasterCard in both actions.

SO ORDERED:

Dated: July 15, 2004
New York, New York

DENISE COTE
United States District Judge